AN ASSESSMENT OF SCAG'S REGIONAL HOUSING NEEDS DETERMINATION *FOR THE CITY OF RIVERSIDE*

AMENDED AND RESUBMITTED

August 7, 2000

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I. EXECUTIVE SUMMARY

On November 4, 1999, the Southern California Association of Governments developed its Regional Housing needs Assessment which calculated the total number of housing units that the City of Riverside must plan for between 1998-2005. Pursuant to the statutory appeals process cited in the California Government Code (Section 65584 et. seq.) and the appeals procedure developed by SCAG as amended, the City has developed the following appeal for a reduction.

The primary basis of the appeal is twofold – vacancy adjustment and the replacement adjustment. First, the RHNA model uses measures of vacancies, which do not reflect current housing conditions. Namely, the RHNA vacancy adjustment uses an estimate of the current vacancy rate that has not been updated since 1990. Secondly, the RHNA model uses the average annual housing loss rate for Riverside for the period of 1990-1994 plus a regional multiplier for conversions. Both data sources can be updated with information that more accurately reflects market conditions.

Pursuant to the RHNA Appeals Process, a jurisdiction may request "the substitution of a different current vacancy rate or replacement rate that meets all of the acceptability and consistency criteria noted earlier for alternative data. To provide alternative data, the City contracted with the Census Bureau to prepare a statistically valid sample from the 1994 **A**merican **H**ousing **S**urvey ("AHS"). The City also contractd with HUD and the California Association of Realtors for foreclosure data. All data sources have been approved by SCAG pursuant to their revised appeals process.

In summary, the City of Riverside found that the excessive number of foreclosures that occurred during the real estate crash caused the City's vacancy rate to increase after 1990. This contention was supported by the American Housing Survey, which shows a similar increase. Furthermore, the City used more accurate building department records to account for demolitions and conversions. Based on this data, the City first calculated the RHNA reduction shown below in Column #2. Column #3 shows the recalculation of the vacancy adjustment pursuant to this amended appeal. Appendix D of this report compares the City's draft RHNA with these two options.

Chart 1: City of Riverside
Recommended RHNA

RHNA Component	Original RHNA Allocation	Preferred RHNA Allocation (submitted 1/19/00)	Amended RHNA (Submitted 8/7/00)
Household Growth	8,786	8,786	8,786
Vacancy Need	-711	-2,815	-1,988
Housing Loss	714	414	414
Total Need	8,789	6,385	7,212

Source: SCAG's RHNA Calculator

II. INTRODUCTION

Every five years, State law requires regional governments in California to prepare a Regional Plan for addressing housing issues related to future population and employment growth. On November 4, 1999, the **S**outhern **C**alifornia **A**ssociation of **G**overnments ("SCAG") prepared their **R**egional **H**ousing **N**eeds **A**ssessment ("RHNA") for jurisdictions in southern California. SCAG and WRCOG has determined that the City of Riverside's future housing need is 8,748 units for the housing element planning period of January 1998 through July 2005.

Based on the RHNA, State law requires cities to prepare a Housing Element that identifies how they will meet their existing and future housing needs. Jurisdictions must identify adequate sites that will be made available through appropriate zoning and development standards and with services and facilities to facilitate and encourage the development of housing that is affordable to all income levels identified in the RHNA (Government Code, Section 65583). Jurisdictions must also include goals, policies, programs, and funding to implement these efforts.

RHNA Calculation.

Chart 2 outlines the future need component of the RHNA – household growth, vacancy and replacement need, and "fair share" adjustment. Household growth forecasts are based upon a projection of both employment and population over a 7½-year period from 1998 through 2005. Once household growth is determined, SCAG applies a vacancy and housing unit loss adjustment to ensure that a certain number of units are available to promote housing choice, moderate costs, promote upkeep and repair, and replace units lost to demolition, conversion or disaster. The sum of these components is the future housing need of the City. Lastly, SCAG applies a "fair share" formula to determine the affordability mix of new housing.

Chart 2: Preliminary RHNA for the City of Riverside

Components	Future Needs	Percent of RHNA
Household Growth	8,786	100%
Vacancy Need	-648	-7%
Housing Losses	611	+7%
Total	8,748	100%
Affordability Level		
Very Low	1,884	21.5%
Low	1,344	15.4%
Moderate	1,897	21.7%
Upper	3,623	41.4%
Total*	8,748	100%

The Regional Housing Needs Assessment (RHNA) process is more than a "numbers game." The RHNA process affects the future distribution of land uses in a community, the tax base derived from such uses, the types and density of new housing provided (e.g., single-family vs. multifamily), and the amount of funding directed at subsidizing housing. Cities are also placed at legal jeopardy should their Housing Element be found not in compliance with State law. Therefore, the RHNA is a critical component of the City's overall housing strategy.

Appeal Process.

Because the RHNA has significant implications on a community's land use policy, future development, and the allocation of funding, the California Government Code allows for jurisdictions to formally file an appeal for a modification of their RHNA. Pursuant to Government Code, Section 65584 et. seq., communities can appeal their RHNA based upon the following:

- **Market demand for housing**
- Employment opportunities
- Availability of suitable sites and public facilities
- Commuting patterns
- Type and tenure of housing
- Loss of units in assisted housing developments
- Over-concentration of lower income households
- Geological and topographical restraints

On November 4, 1999, SCAG assigned the City of Riverside their draft RHNA allocation. After careful review, Riverside was concerned that the draft RHNA did not reflect current housing market conditions. The majority of the data used to forecast future housing need originated from the 1990 Census. Because of the data source used, the RHNA model could not reflect the severity of the Inland Empire recession of 1993-1997, its impact upon the housing market, nor account for differences in the rate of recovery across jurisdictions in Riverside County.

On January 19, 1999, the City of Riverside thus filed an appeal requesting a reduction in their RHNA allocation based on lack of market demand for housing. In summary, the City contended that the Inland Economic recession of 1993-1997 brought with it an increase in the vacancy and foreclosure rate and decline in the resale prices of existing homes. This caused a very low rate of new construction (only 20% of 1990 levels) and an equally lower rate of homes lost to demolition, because recycling of existing residential sites were not financially feasible.

The City of Riverside and other jurisdictions met with SCAG staff in mediation hearings to resolve these issues. These mediation efforts did not result in further resolution, although it did allow jurisdictions in similarly situated circumstances to air their common issues of concern. On May 4, 2000, because the current RHNA appeal process did not adequately allow for the use of alternative data sources that demonstrated changes in housing market conditions since the census, the SCAG Regional Council formally rejected the draft 1998-2005 RHNA.

The Regional Council placed the RHNA process on hold until several issues were resolved: (1) amendment and further clarification of the appeals process, (2) additional liaison with jurisdictions filing an appeal, and (3) negotiations with HCD on the regional future need total. We understand that significant progress has been made, in particular further clarification and definition of the accepted planning methodology and data sources for filing a new appeal. The City is therefore resubmitting its appeal in accordance with the revised procedures.

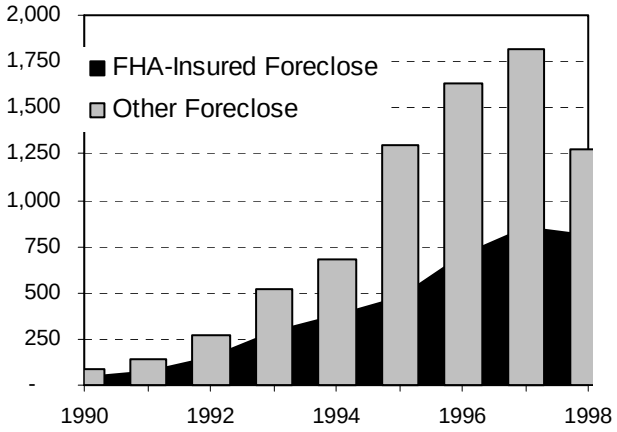
III. EXISTING MARKET CONDITIONS

A clear understanding of existing market conditions in Riverside is critical for this appeal. As stated earlier, the 1998-2005 RHNA was based upon pre-recession housing conditions. Because the data comes primarily from the 1990 Census, the RHNA model does not account for high rate of foreclosures and higher than optimal vacancy rates. This section provides the existing market conditions that should provide the framework for an amended appeal.

Foreclosures.

Over the 1990s, the County of Riverside has witnessed over 65,000 foreclosures. To gather the City's foreclosure data, the HUD and Golden Feather Realty provided data on FHA-insured properties that showed that foreclosures among government-backed mortgages increased from 47 to over 800 homes from 1990-98. When conventionally financed mortgages tracked by the California Association of Realtors are added, the total number of foreclosures was nearly 1,300 in 1998. This is a significant increase since 1990.

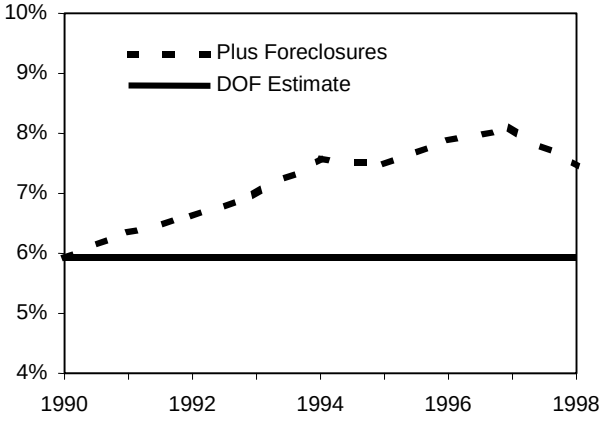
Chart 3: City of Riverside Foreclosures 1990-1998



Vacancies.

As shown above, the 1990s were impacted by a tremendous number of foreclosures. This increase is clearly not reflected in the Department of Finance records because they never changed estimates after 1990. However, as expected, when documented foreclosures are added to DOF's estimate, the City's unoccupied rate increased over the 1990s. This estimate is confirmed by other surveys conducted by the Census Bureau (e.g., American Housing Survey), which showed that the City's unoccupied rate rose from 6.0% to 7.6% from 1999-1994, suggesting that foreclosures had an impact.

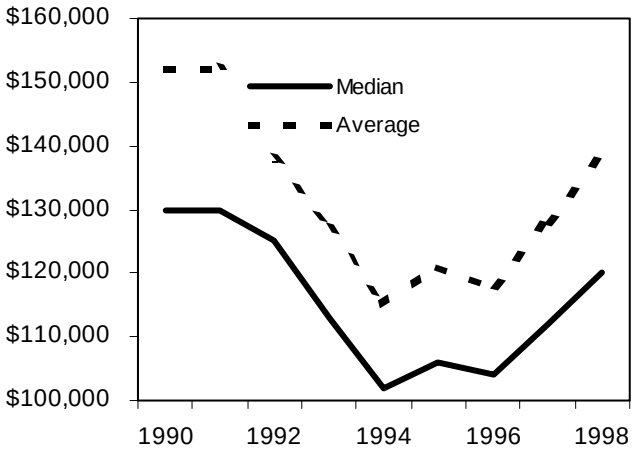
Chart 4: Estimated Percentage of Unoccupied Units in Riverside



Home Prices.

The excessive number of foreclosures had a profound impact upon the market according to First American Real Estate. Following the economic recession and the real estate market crash of the mid-1990s, the values of existing homes declined, losing 25% of their value in non-inflation adjusted dollars. The freefall bottomed out in 1996, with resale values now increasing. Although the City of Riverside has clearly began a recovery, the sales price of existing single-family homes in 1998 was still 10% below pre-recession days.

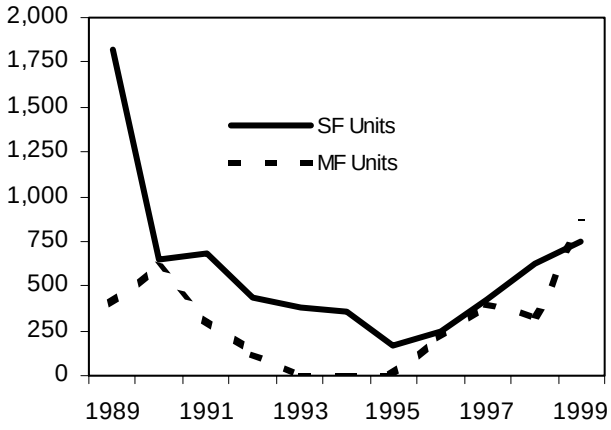
Chart 5: Resale Prices of Homes in Riverside (1990-1998)



Building Permits.

Rising foreclosure and vacancy rates, as well as falling resale prices of homes, had a significant impact. Building permit plummeted to ten-year lows. In 1997, the housing market began to improve. As building permit records became available, the City's recovery became more evident in latter months of 1999. As shown in Chart 5, the Riverside housing market has improved since its recession days; however, construction activity is still far below the levels of permit activity shown during 1989.

Chart 6: City of Riverside: Building Permit Activity



Taken together, an analysis of foreclosure data, vacancy data, sales prices of resale homes, and building permit activity present a mixed picture. On the one hand, the market for new homes appears more robust, as evidenced by building permit activity. On the other hand, the market for resale homes appears to have underlying weaknesses, evidenced by depressed sales prices, higher level of foreclosures and vacancies. With this analysis as the basis, this report examines the Riverside RHNA and requests that portions be amended appropriately. Underlying data and worksheets in support of the appeal are attached as appendices.

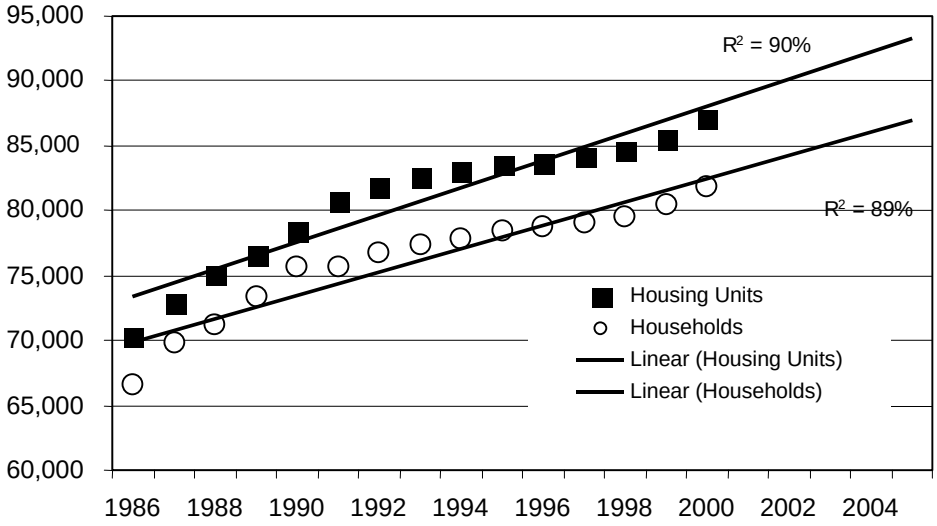
IV. GROWTH FORECAST

SCAG's household growth forecast is a significant portion of the City of Riverside's RHNA. SCAG's forecast is for a 7.5 year period beginning January 1, 1998 and ending July 1 2005 and is incorporated into the Regional Transportation Plan. The forecast is based upon a variety of sources, including historical trends in household growth over the past decade, expected growth in employment in and around Riverside, as well as expected population growth.

The accuracy of forecasts can be shown with the statistical technique of "regression." Regression analysis is used to analyze a series of data, in this case from 1986 through 1997, develop a trendline that closely matches that data, and then extend the trend through Year 2005. The accuracy of a forecast is measured by the regression coefficient denoted "R^2". For instance, an R^2 of 100% means that the current forecast exactly matches historical growth.

SCAG's 2005 forecast explains 90% of past household growth trends in Riverside (Chart 7). Therefore, SCAG's growth forecast appears to be relatively robust over the long-term. Although SCAG's forecast generally matches long-term trends, the City is concerned that future housing growth will slow as the two areas where building activity is occurring are reaching buildout. However since empirical data is unavailable, the City is not appealing their growth forecast.

Chart 7: City of Riverside
Housing Unit and Household Growth



V. VACANCY ADJUSTMENT

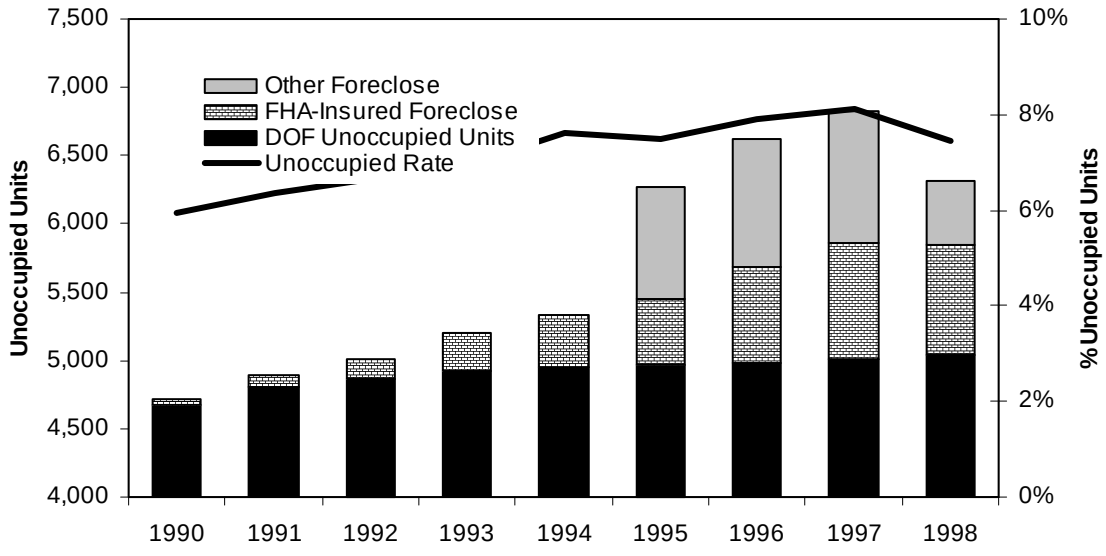
The second component of the RHNA -- the vacancy need adjustment -- is designed to ensure that a sufficient number of vacant units are available to promote residential choice, moderate housing prices, and promote unit upkeep and repair. Determining the difference between normal and current vacancies and then adding a certain number to accommodate future growth derives the vacancy need adjustment.

Vacancy Adjustment
Current Vacancies
Minus
Ideal/Normal Vacancies
Plus
Future Vacancy Needs

The vacancy adjustment in the RHHA model is problematic. This is because the current unoccupied rate (from which the current vacancy rate is derived) has not been updated since 1990. Therefore, future housing need is determined by market conditions existing in 1990. This problem is evident in that the market has changed dramatically over the decade. The real estate crash and economic restructuring have increased foreclosures and depressed home values. Thus above all else, the current vacancy rate is the most problematic issue with the RHNA.

To support this contention, Riverside contracted with the Census Bureau to examine the 1994 **A**merican **H**ousing **S**urvey for the Riverside-San Bernardino Metropolitan Area. In brief, the AHS showed that Riverside's unoccupied rate increased to 7.6% from 1990-1994 as predicted. This increase appears to be due to foreclosures shown by the California Association of Realtors. Chart 8 below shows the impact of adding foreclosures to the number of unoccupied units. Appendix 2 calculates how the City's unoccupied rate has changed as a result.

Chart 8: Change in Unoccupied Units



Final Vacancy Adjustment.

Prior analysis has shown that the real estate market crash led to an increasing number of foreclosures of existing homes. These foreclosures peaked during 1997 and left a significant volume of unsold and vacant homes. Furthermore, since the RHNA current vacancy rate is the same as in 1990, the RHN Amodel could not accommodate nor account for foreclosures. Therefore, in order to refine the vacancy adjustment, foreclosures must be accounted for.

To refine the vacancy adjustment, the City proposes adding the total conventional and government-backed foreclosures in 1998 to the total number of current vacant units estimated by the RHNA model. Unlike a certain portion of vacant units which are not available for rent or sale, the City belives that all foreclosed homes are actually on the housing market and should thus be counted. Therefore, the effective vacany rate should not be applied to the number of foreclosures.

Current Vacancy Rate
Unoccupied Units (1998)
Times
Effective Vacancy Rate
Plus
Foreclosures (1998
Equals
Current Vacancies

The following calculations below itemize how the City's vacancy adjustment is calculated with the new number of unoccupied units calculated in the earlier analysis. Also included are the remaining portions of the vacancy calculation – mobility rate and future vacancy need – as originally calculated by the RHNA. Taken together, the City is requesting an additional vacancy credit of 1,277 units to account for foreclosures that occurred during 1998. Appendix B details all the underlying calculations needed to arrive at the RHNA vacancy adjustment.

Chart 9: Vacancy Adjustment

Calculation	Original RHNA	Revised RHNA
a. Number of Housing Units (1998)	84,685	84,685
b. Unoccupied Units (b*c)	-5,039	-5,039
c. Effective Vacancy Rate	73.9%	73.9%
d. Total Vacant Available Units	-3,724	-3,724
e. Foreclosures in 1998	--	-1,277
f. Total Vacant Available Units	-3,724	-5,001
g. Minus Ideal Vacancies (units)	2,728	2,728
h. Plus Vacancies for Growth (units)	283	283
i. Total Vacancy Adjustment	-713	-1,990

V. HOUSING LOSS ADJUSTMENT

The third component of the RHNA -- the housing loss adjustment -- is designed to ensure that units lost to demolitions, mergers, conversions, or natural disasters are replaced. SCAG calculates the City's replacement rate based upon an average subregional rates for 1990-1994. Secondly, SCAG applies a regional conversion factor to account for housing that is converted to non-housing uses or lost through mergers. The full unabridged calculation is shown later.

Abridged Calculation for the Housing Unit Loss Adjustment
1. Determine Demolitions
2. Determine Conversions
3. Annualize the Rate
4. Multiply by 1998 Housing Units
5. Multiply by 7.5 years

Pursuant to Section IIIB2b of the Appeals Process, a jurisdiction may also request "the substitution of a different current housing loss rate that meets all of the acceptability and consistency criteria noted earlier for alternative data. Jurisdictions may also request that their typical vacancy and replacement rates be derived using (1) regional, (2) subregional, or (3) local data, provided that one level of geography is more indicative of their housing market.

The City of Riverside is requesting the use of local housing loss data (including conversion data) as approved by SCAG for other cities. City staff diligently researched all housing unit losses that have occurred over the 1990s. The City is also choosing a longer and more representative time frame of 1990-1999 for calculating the housing loss adjustment, because SCAG staff specifically indicated that all cities must include the period of 1990-1994 in their calculations.

The City's draft 1998-2005RHNA assumes that Riverside lost 291 units or 58 annually from 1990-1994 – translating into a replacement requirement of 611 units from 1998 through 2005. Based upon a longer ten year (1990-1999) period, however, the City lost 52 units annually due to demolition, conversion and merger – translating into a replacement requirement of 414 units. Chart 8 below compares the two calculations and shows the requested amount.

Chart 10: City of Riverside
Abridged Housing Loss Calculation

Calculation	**Current RHNA [1]**	**Preferred RHNA [2]**
Demolitions	291	516
Conversions	160	7
Total Housing Unit Losses	451	523
Annualized Loss Rate	90.2	52.3
Housing Unit Loss Adjustment	714	414

Notations: Full calculation included in RHNA Worksheet

Appendix A: Housing Market Indicators

	Units as of January 1st of Year (1)			New Building Permits (2)		
Year	Total	SF Units	MF Units	SF Units	MF Units	Demos
1985	67,256	47,262	19,994	984	2,308	n.a.
1986	70,358	48,122	22,236	1,084	1,396	n.a.
1987	72,987	48,993	23,994	1,130	395	n.a.
1988	75,176	49,855	25,321	1,441	146	n.a.
1989	76,611	50,844	25,767	1,826	406	38
1990	78,567	52,523	26,044	646	607	118
1991	80,826	54,190	26,636	683	318	64
1992	81,835	54,727	27,107	438	118	50
1993	82,631	55,234	27,363	385	4	36
1994	83,147	55,710	27,437	361	2	31
1995	83,542	56,018	27,524	166	2	27
1996	83,776	56,254	27,522	244	208	63
1997	84,159	56,465	27,694	421	405	26
1998	84,685	56,783	27,902	630	336	85
1999	85,544	57,294	28,250	749	845	23

	Sales Price of Homes (3)		Foreclosure Data		
Year	Median	Average	FHA-Insure (4)	Conven-tional (5)	Total (6)
1990	n.a.	n.a.	47	38	85
1991	$ 130,000	$ 152,100	78	62	140
1992	$ 130,000	$ 152,000	148	119	267
1993	$ 125,000	$ 138,000	291	233	524
1994	$ 113,000	$ 127,000	379	303	682
1995	$ 102,000	$ 115,000	479	819	1298
1996	$ 106,000	$ 121,000	703	933	1636
1997	$ 104,000	$ 118,000	859	954	1813
1998	$ 112,000	$ 128,000	811	466	1277
1999	$ 120,000	$ 138,000	572	252	824

Source:

1. Department of Finance, E-5 Reports
2. City records of building permits, demolitions and housing losses
3. First American Real Estate Solutions (2000)
4. HUD Santa Ana Office
5. Difference of Total Foreclosures - FHA-Insured Foreclosures
6. California Association of Realtors (1995-1999); Total Foreclosures

Appendix B: Vacancy Need Adjustment

	DOF Baseline		+ Addt'l Foreclosures		= Total Unoccupied Units	
Date	Total Units	DOF Unoccupied Units	FHA-Insured Foreclose	Other Foreclose	Unoccupied Units	Unoccupied Rate
1990	78,567	4,675	47	-	n.a.	5.95%
1991	80,826	4,809	78	-	n.a.	6.36%
1992	81,835	4,869	148	-	n.a.	6.65%
1993	82,631	4,917	291	-	n.a.	6.96%
1994	83,147	4,947	379	-	n.a.	7.60%
1995	83,542	4,971	479	819	6,269	7.50%
1996	83,776	4,985	703	933	6,621	7.90%
1997	84,159	5,007	859	954	6,820	8.10%
1998	84,685	5,039	811	466	6,316	7.46%

SCAG's Vacancy Calculation	**Original 1990**	**Revised 1998**	**Additional Credit**
a. Number of Housing Units in 1998	84,685	84,685	
b. Number of Unoccupied Units (DOF)	-5,039	-5,039	
c. Effective Vacancy Rate (1990 Census)	73.9%	73.9%	
d. Current Vacancies Available (b*c)	-3,724	-3,724	0
e. Plus Foreclosures	0	-1,277	
f. Adjusted Vacant Units on Market	-3,724	-5,001	
g. Plus Ideal Vacancies	2,728	2,728	
h. Plus Future Vacancies	283	283	
i. Vacancy Adjustment (f+g+h)	-713	-1,990	-1,277

Source: Baseline for DOF Unoccupied Units: 1990 Census
DOF Unoccupied Units calculated by multiplying housing units * 5.95%
FHA-Insured Foreclosure Data: HUD-Santa Ana Office.
Conventional Foreclosures: California Association of Realtors
1994 Unoccupied Rate: 1994 American Housing Survey

CITY OF RIVERSIDE PLANNING DEPARTMENT

Interoffice Memo

DATE: January 20, 2000

TO: Karen Warner and Mark Hoffman
Cotton/Beland/Associates

FROM: Casey Tibbet
Planning Department

SUBJECT: **Demolitions and Conversions**

According to my research, between 1990 and the present there have been a total of 516 units demolished (see table below). To estimate conversions we reviewed housing units that were converted to non-housing uses as well as housing units where the number of units were reduced (i.e. fourplex to tri-plex). Based on our review of planning related applications and administrative/commission approvals, a total of 7 units have been converted to non-housing uses during the period from 1990-2000. Riverside has few areas where residences are located in predominantly commercial districts. In addition, costs associated with rezoning the property for commercial uses and compliance with development requirements such as minimum lot sizes, parking, and handicapped accessibility often make it more economically feasible to construct new buildings rather than convert existing residences.

Year	Units Demolished	Units Converted	Total Loss
1990	118	0	118
1991	64	0	64
1992	50	0	50
1993	36	0	36
1994	31	0	31
1995	26	1	27
1996	63	0	63
1997	26	0	26
1998	82	3	85
1999	20	3	23

City staff believes that the 5-year period from 1992-1996 is the most appropriate for calculating housing unit losses in Riverside because it corresponds to the time period being used to estimate the vacancy need adjustment with the 1994 American Housing Survey. If you have any questions, please call me at (909) 782-5448.

Appendix D: RHNA Calculator

	Current RHNA	Option #1: Based-AHS	Option #2: Revised
Household Growth			
1998 Housing Units	84,685	84,685	84,685
- % Single Family	67.1%	67.1%	67%
- % Multifamily	32.9%	32.9%	33%
Households			
-- 1990 Census	75,463	75,463	75,463
-- 1998 D.O.F.	79,644	79,644	79,644
-- 2005 Projection	88,430	88,430	88,430
-- Total Growth	8,786	8,786	8,786
Vacancy Data			
Unoccupied Rate (1998)	5.95%	7.60%	5.95%
Total Renters	32,997	30,400	32,997
Recent Move-ins	15,437	16,750	15,437
Vacant for Rent	2,297	5,800	2,297
Total Owners	42,466	53,600	42,466
Recent Move-ins	5,537	5,125	5,537
Vacant for Sale	1,231	500	1,231
Other Vacants	1,249	600	1,249
Mobility Rates			
For Owners	1.7%	1.3%	1.7%
For Rentals	6.2%	7.3%	6.2%
Total Mobility	3.7%	3.5%	3.7%
Effective Vacancy	73.9%	91.3%	73.9%
Vacancy Needs			
1. Ideal Vacants-All	2,728	2,774	2,728
2. Current Vacants	3,721	5,876	3,721
3. Surplus or Deficit	-994	-3,103	-994
4. Future Vacancies	283	288	283
5. Vacancy Need	-711	-2,815	-711
6. Plus Foreclosures	0	0	-1,277
' 7. Total Vacancy Need	-711	-2,815	-1,988
Housing Unit Loss			
1998 Total Units	84,685	84,685	84,685
1990 Housing Units	80,240	80,240	80,240
Annual Loss Rate	90	52	52
Loss Rate	0.001124	0.000652	0.000652
Projected Losses	714	414	414
RHNA Calculation			
Household Growth	8,786	8,786	8,786
Vacancy Need	-711	-2,815	-1,988
Demolitions	714	414	414
Total Housing Need	8,789	6,385	7,212